

# Inquiry into poverty in Wales: making the economy work for people on low incomes

## Submission by the Bevan Foundation

1. The Bevan Foundation is an independent, charitable think tank that generates new ideas to make Wales fair, prosperous and sustainable. We have recently completed major projects on:
  - how growth sectors can support a reduction in poverty;<sup>1</sup>
  - how to increase take-up of the voluntary Living Wage;<sup>2</sup>
  - how the economy can benefit all people and places ('inclusive growth').<sup>3</sup>
2. We welcome the Welsh Government's commitment in its Programme for Government to achieving prosperity for all. With no change in poverty amongst people of working age for more than a decade and forecasts that the position is likely to worsen, ensuring that people at the bottom of the income spectrum benefit will be crucial.
3. To achieve the aim of prosperity for all there needs to be a major shift in the Welsh Government's approach to economic development to ensure that all parts of the economy in all parts of Wales are valued and supported. This will mean addressing all economic sectors, stimulating the least well-off areas, and considering job quality. The Welsh Government also needs a comprehensive, joined-up set of policies to help create an inclusive labour market in order to improve access to employment, encourage progression and enhance the terms and conditions of work. An inclusive economy and an inclusive labour market must run in parallel – there can't be one without the other.

## More jobs

4. The fundamental challenge in Wales is the lack of jobs. This not only affects the likelihood of someone being in paid work, it also affects pay. Analysis of UK data suggests that an increase in the total number of jobs in a local labour market is more important in influencing individuals' wage rates than growth in specific sectors,<sup>4</sup> while research from the US has shown that when labour demand picks up strongly, both pay and hours of work improve.<sup>5</sup> Action to boost employment in the parts of Wales with the weakest labour markets is therefore likely to have as much impact on employment rates and wage levels as action that is focused specifically on employability and pay.
5. Drawing on recent work with the Joseph Rowntree Foundation,<sup>6</sup> effective ways of increasing employment in disadvantaged areas include:
  - **Area-based economic development initiatives:** such as designating new Enterprise Zones and growth poles at strategic locations.
  - **Excellent local connectivity:** good connections between disadvantaged communities and centres of employment are needed via fast, frequent and affordable public transport.
  - **Using public procurement:** to secure more and better job opportunities for disadvantaged workers, as well as other local benefits.

## **Better Jobs**

6. Job quality should be a critical issue for the Welsh Government, not least because the nature of work exerts an important influence on individual well-being.<sup>7</sup> Job quality encompasses many aspects of work, but pay is one of the most important.

### ***The voluntary Living Wage***

7. Low pay is endemic, with more than one in four workers not earning enough to meet their basic needs i.e. less than the voluntary Living Wage. Low pay occurs in all parts of Wales, affects men as well as women, and is found in all sectors of the economy.<sup>8</sup> The areas with the highest proportion of the workforce paid below the Living Wage are mostly rural, the group of people most affected is women working part-time, and the sectors with the highest proportion of low-paid workers are accommodation and food services, residential care and wholesale and retail (where more than half the workforce earn below the voluntary Living Wage rate).<sup>9</sup>
8. The voluntary Living Wage offers a potential solution for Wales' low pay problem.<sup>10</sup> The benefits for employers include increased productivity, improved staff recruitment, attendance and retention, and reputational enhancement, with the impact on wage bills and profits being very modest although they vary with the size and sector of the organisation.
9. The benefits for Wales' employees include increased income and reduced dependence on benefits, more time outside work and increased well-being. The extent of the gains depends on employees' working patterns, welfare entitlement and other household arrangements.
10. The benefits to the wider economy are increased tax and national insurance revenues and savings on benefits. Modelling of the impact on total employment suggests that at worst there is a very small risk of very limited job loss and at best some increase in employment. The impact on the headline rate of poverty is likely to be modest, but the benefits over people's life-course can be considerable.
11. The Living Wage has received support from almost all political parties, as well as trade unions and other campaigners throughout Wales. However, Wales has not had the same level of high-profile country-wide campaigning as in Scotland, nor has there been much innovation in terms of incentives for employers to become Living Wage accredited.
12. There has been some welcome recent progress in increasing the number of accredited and non-accredited Living Wage employers with both being at an all-time high. There is much more that could be done: half of Wales' local authorities do not yet pay the Living Wage, no Wales-headquartered employers in the key sectors of accommodation or retail have committed to pay it, and some local authorities have no accredited Living Wage employers headquartered in their areas.
13. A step-up in action is needed if there is to be significant change in the number of Living Wage employers and employees in Wales. We have recommended that the aim should be to reduce the proportion of people in Wales earning less than the Living Wage to the UK average (excluding London) within five years – requiring a cut of about 6,000 people a year. This should be achieved by:

- a robust strategy which mixes ‘quick wins’ such as amongst employers who are ‘natural sympathisers’ with sectoral approaches where low pay is widespread;
- using tactics that work – especially employer-to-employer messages and development of a Living Wage ‘movement’;
- local and Wales-wide policy and legislation to encourage employers to pay the Living Wage; and,
- a dedicated resource to champion and support the Living Wage, which brings together Welsh Government, trade unions, employer representatives and other campaigners.

### ***Other aspects of job quality***

14. Research by the Joseph Rowntree Foundation on what low-paid employees valued found that after a pay increase their priorities were work-related training; contributions to pensions; flexible working; paid breaks, training and overtime; paid sick leave and help with childcare.<sup>11</sup>
15. We welcome the Fair Work Commission although more information about its remit and impact would be helpful. We also welcome the Code of Practice on Ethical Employment in the supply chain, but it will need rigorous enforcement and support for employers to have full effect.
16. In addition to strengthening these two initiatives, we are urging the Welsh Government to include a commitment to improving job quality in its forthcoming economic strategy, and to:
  - **Refocus Welsh Government business finance** so that a key criterion for support is job quality, and not business size or sector.
  - **Develop sector strategies** for low paid sectors, including those in the foundational economy, to encourage a shift away from low-pay / low-skill business models.
  - To develop ways of improving the quality of part-time work in particular.

### **Supporting people to get into work**

17. Having someone in a household in paid work more than halves the risk of being in poverty. We welcome the Welsh Government’s intention to produce a comprehensive, all-age plan to boost employability. The evidence from research by JRF<sup>12</sup> and by Green et al<sup>13</sup> shows that it is vital that the plan:
  - is based on job seekers’ needs not criteria such as age or benefit entitlement;
  - is based on the proven approach of providing a package of pre-employment training, work placement and a guaranteed job interview;
  - enables job advisors to be flexible and responsive to employers’ and job-seekers’ needs;
  - offers specialist support and an Intermediate Labour Market programme for those furthest from the labour market;
  - includes personalised careers information, advice and guidance for adults.
18. The focus on job entry is not enough on its own to reduce poverty. Working does not eradicate the risk of poverty, and so a focus on job retention and progression is a vital complement to employability. We have therefore recommended that the employability strategy includes support for progression as well as job entry.
19. Support for progression will need to take into account progression within sectors as well as progression across sectors. Within sectors, the likelihood of moving out of low pay varies: in accommodation and

food, 17.4% of employees left low pay in a year compared with 59.0% in finance and insurance services. Here, the evidence shows that creating clear progression pathways, with adequate support and communication with employees, can help. We have recommended that a pilot progression programme be developed in health and social care, both large sectors experiencing recruitment difficulties in higher-paid roles.

20. Many employees progress in work by moving between sectors. For them, access to tailored, personalised information, advice and guidance, coupled with general investment in workforce development and skills are key.
21. In terms of delivery, the evidence clearly shows that an employability plan should be comprehensive, bringing together all forms of provision (including the Work and Health Programme). It should also involve employers in the design and delivery of provision, and, crucially, it should be developed and delivered at local level to reflect different labour market conditions across Wales and have effective reach into the community.

### **The role of welfare benefits for people on low incomes**

22. The social security system plays a key role in topping up the incomes of people in work and on low pay, as well as those who are unable to work for whatever reason.
23. For people in work, earnings-related benefits play a vital role in topping up household incomes. Working and Child Tax credits are claimed by 161,000 people who are in work while Housing Benefit is claimed by approximately 72,000 working households. In addition universal benefits such as child benefit and non-means tested benefits such as Personal Independence Payment are important to low income working individuals and families.
24. Social security benefits are the main source of income where people are not working. As at November 2016, 11.3% of the population of working age claimed an out-of-work benefit (216,000 people).
25. The Joseph Rowntree Foundation has made comprehensive recommendations to reform the benefits system, including increasing the work allowance whenever income taxes are cut, returning the work allowances to their levels in the original design of Universal Credit and allowing second earners in a household to keep more of their earnings; and increasing Job Seeker's Allowance to reduce the risk of destitution.<sup>14</sup>
26. The transition to Universal Credit brings additional challenges, because 'conditionality' will be applied to in-work claimants, who will be expected to seek additional hours and higher earnings. This will depend in part on jobs being available and employers being open to requests for extra hours or changes in job design.
27. While the bulk of the social security system is not devolved, there are important elements of the welfare system which the Welsh Government does control and which is mostly overlooked. This includes:
  - help with council tax
  - Discretionary Housing Payments

- Discretionary Assistance Fund.

28. In addition, the Welsh Government's decisions on issues such as social rents, charges for health care (prescriptions, dental and optical care), school meals and the availability of childcare affect the eligibility of households to claim help with costs.
29. We have previously recommended that the Welsh Government should seek the immediate devolution of Housing Benefit<sup>15</sup> and help with childcare costs,<sup>16</sup> and it should also ensure that the devolved elements of the social security system provide a coherent package of support for those on low incomes.

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<sup>1</sup> Economic and Social Research Council project 'Harnessing Growth Sectors for Poverty Reduction: What Works to Reduce Poverty through Sustainable Employment with Opportunities for Progression' Grant reference ES/M007111/1. See <https://www.bevanfoundation.org/current-projects/will-take-pay-living-wage-wales/>

<sup>2</sup> See **What will it take to pay the Living Wage in Wales?** <https://www.bevanfoundation.org/current-projects/will-take-pay-living-wage-wales/>

<sup>3</sup> See **Towards a Wales without poverty** at <https://www.bevanfoundation.org/current-projects/towards-wales-without-poverty/>

<sup>4</sup> Green, A., Sissons, P. and Lee, N. (2017a) **Growth Sectors: Data Analysis on Employment Change, Wages and Poverty**. Cardiff: Public Policy Institute for Wales

<sup>5</sup> New Policy Institute (2013) **Monitoring poverty and social exclusion in Wales**, Joseph Rowntree Foundation <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/poverty-exclusion-wales-summary.pdf>

<sup>6</sup> Bevan Foundation and Joseph Rowntree Foundation (2016) **Prosperity without Poverty**, <https://www.bevanfoundation.org/publications/prosperity-without-poverty-framework-action-wales/>

<sup>7</sup> Green, A. et al (forthcoming) **Harnessing growth sectors for poverty reduction: the role of policy**. Public Policy Institute Wales.

<sup>8</sup> Bevan Foundation (2016) **Fair Pay: a Living Wage for Wales** <https://www.bevanfoundation.org/publications/fair-pay-living-wage-wales/>

<sup>9</sup> Green, A. et al (2017) **Growth Sectors: Data Analysis on Employment Change, Wages and Poverty**, <http://ppi.w.org.uk/files/2017/02/Growth-Sectors.-Data-Analysis-on-Employment-Change-Wages-and-Poverty.pdf>

<sup>10</sup> Bevan Foundation (2016) **Fair Pay: a Living Wage for Wales** <https://www.bevanfoundation.org/publications/fair-pay-living-wage-wales/>

<sup>11</sup> Joseph Rowntree Foundation (2016) **UK Poverty: causes, costs and solutions** <https://www.jrf.org.uk/report/uk-poverty-causes-costs-and-solutions> p. 151

<sup>12</sup> Op. cit.

<sup>13</sup> Green, A. et al (2017) **Employment Entry in Growth Sectors**, <http://ppi.w.org.uk/files/2017/04/ESRC-Evidence-Review-Paper-Employment-Entry.pdf>

<sup>14</sup> Joseph Rowntree Foundation (2016) **UK Poverty: causes, costs and solutions** <https://www.jrf.org.uk/report/uk-poverty-causes-costs-and-solutions>

<sup>15</sup> Bevan Foundation (2016) **Making Welfare Work for Wales**, <https://www.bevanfoundation.org/publications/making-welfare-wales-benefits-people-working-age-devolved/>

<sup>16</sup> Bevan Foundation and Joseph Rowntree Foundation (2016) **Prosperity without Poverty**, <https://www.bevanfoundation.org/publications/prosperity-without-poverty-framework-action-wales/>